

London Borough of Havering

Annual Audit Letter

2014/15

Government and
Public Sector

October 2015

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit opinion for the 2014/15 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report for 2013/14 grant claims (to those charged with governance).

The matters reported here are the most significant for the Authority.

Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the Havering Pension Fund.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2015 and is conducted in accordance with the Audit Commission's Code

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of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We issued an unqualified opinion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We issued an unqualified assurance statement.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	We issued an unqualified conclusion.

Audit Responsibility	Results
Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	We did not identify any matters to bring to the attention of those charged with governance.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	We did not issue any reports in the public interest.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	We did not identify any matters where we needed to take action in relation to our responsibilities under the Audit Commission Act

Audit Responsibility	Results
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	We have issued our completion certificate on the audit following completion of our work on the Pension Fund Annual report and Whole of Government Accounts on 30 October 2015.
Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority's statement of accounts.	We issued a report that noted that the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority's statement of accounts.

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2015.

We noted significant issues arising from our audit within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Audit Committee on 24 September 2015. We wish to draw the following points, included in that report, to your attention in this letter:

- A prior period adjustment was made to the 2013/14 comparatives in relation to a technical accounting issue that had no impact on the general fund;
- A recommendation in relation to the Authority's arrangements to secure financial resilience (see page 6 below).
- We also reported verbally to the Audit Committee that we needed to conduct additional audit procedures to reconcile the opening trial balance to the closing trial balance, as a result of changes in account mapping in the new OneOracle system. Corporate and Operations Finance had carried out extensive work to ensure the accuracy and completeness of the data transfer and worked with us to ensure that we were able to understand the changes and impact at an individual account level. This work was completed by 30 September 2015.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on

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whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- that the organisation has proper arrangements in place for securing financial resilience; and
- that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment. We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts. We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the National

Audit Office. The audited pack was submitted on 1 October 2015. We found no areas of concern to report.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2013/14 to those charged with governance in March 2015. We certified 2 claims worth £98.5 million. In 1 case a qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2013/14. We will issue the Annual Certification Report for 2014/15 in December 2015.

Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

Recommendation	Management Response	Target Implementation Date
<p>Bank reconciliations</p> <p>We noted that two bank accounts showed unreconciled differences of £38,765.43 and £99.57. For the purposes of this audit, management produced manual reconciliations for all accounts to show how these differences are reconciled.</p> <p>The reconciliations should be reviewed and any unreconciled balances should be investigated by the management.</p>	<p>All balances on this reconciliation were reconciled, we were aware of the difference/balance referred to. However, at the time of uploading the reconciliation to the PWC system we unfortunately failed to upload the supporting documentation, which explained the balance. As soon as this was pointed out, the documentation, which explained and evidenced the balance, was provided immediately. There was no time wasted or lost on this matter. This bank account was fully reconciled throughout the year and any balances were investigated, explained and documented. It was a simple oversight that the backing documentation was not uploaded until requested.</p>	<p>Already addressed</p>
<p>Following up on NFI results on a timely basis</p> <p>Every two years, LBH sends a list of all pensioners to the Audit Commission's NFI Team. The Audit Commission then uses information from DWP to inform LBH of any pensioners that have become deceased. The Commission sent a list of 42 pensioners that had become deceased to LBH on 29/01/2015.</p> <p>However, the Authority had not suspended the payroll for all deceased pensioners by March 15 and so overpayments were made to deceased pensioners. We found two such exceptions in our sample of 5. In one instance, a request for the return of overpayment had not been sent at the time of testing (18/08/2015).</p>	<p>NFI are promptly followed up by the Authority. The HR, Payroll and Pensions Manager did not receive the referred list until 25 June 2015 and dealt with any identified death actions by the required deadline of 31 July 2015.</p> <p>To progress with any type of recovery the Pensions administration Team need to obtain a death certificate, which can in some cases take up to eighteen month after death.</p> <p>The Department of Work and Pensions responsible for the Tell Us Once (TUO) service is being extended to include public sector pension schemes. The TUO collect information from registrars in real time following the death of a citizen. The Authority has agreed to participate in this service, which should significantly reduce the risk of overpayment.</p>	<p>Already implemented.</p>

NFI results should be followed up promptly by the Authority.

Financial Resilience

We are aware the Authority is in the process of determining actions to reduce the medium term “budget gap”. We understand this will take into account the Spending Review when published in November 2015 and the Local Government Finance Settlement in December 2015.

However, there are still outstanding issues and areas of uncertainty remaining in closing the budget gap in 2016/17 and beyond.

We therefore formally recommend that management continues to ensure that actions are underway and progress continues to be monitored appropriately.



A further report on the budget strategy will be made to cabinet on 4 November 2015 which sets out further savings and balances the strategy over 2016/17 to 2018/19. The strategy will be further considered in the light of this year’s financial settlement and will be approved at Cabinet in February prior to the council Tax setting report.

February 2016.

Financial Resilience

The 9 September 2015 Cabinet report included a forecast of an overspend of £6.7m for the 2015/16 financial year, including a £7.6m forecast overspend in Children’s, Adults and Housing.

The report notes that further analysis of the causes of the variance is being undertaken.

We recommend that this work is undertaken promptly so that mitigating actions can be taken where possible.



The review of the service overspend continues to be monitored on an on-going basis. The forecast overspend has been reduced by allocating £3m from central provisions for demographic growth. Services have been tasked with finding alternative savings options but there are still sufficient centrally held provisions to meet the 2015-16 pressures. On-going pressures have been considered as part of the development of the Budget strategy.

Feb 2016 – Budget strategy.

Final Fees

Final Fees for 2014/15

We reported our fee proposals in our audit plan.

We are currently in the process of agreeing the fee over and above the scale element with management and Public Sector Audit Appointments Limited (PSAA) and will report the final position in due course. The additional fees are £6,123 for the statement of accounts in relation to the trial balance reconciliation described on page 3 and £3,000 for the pension fund in relation to audit work on more complex investments held by the fund. These amounts are not included in the table below, which includes only our fees charged to date:

We performed work which fell outside of the Code of Audit Practice requirements. This work constituted procedures on the 2013/14 Teachers' Pensions Return and 2013/14 Decent Homes funding grant and a review of IT controls on the upgraded ORACLE system. Our proposed fee for these engagements was £37,750 and the actual fee was £37,750.

Our fee for certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance within the 2014/15 Annual Certification Report.

	2014/15 outturn to date	2014/15 fee proposal	2013/14 final outturn
Audit work performed under the Code of Audit Practice	223,459	223,459	245,504
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Certification of Claims and Returns	21,570	21,570	22,565
Non Audit Work	37,500	37,500	0
TOTAL	282,529	282,529	268,069



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